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# EDITED TRANSCRIPT

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**Rafael R. Lizardi** *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

## CONFERENCE CALL PARTICIPANTS

**Joseph Lawrence Moore** *Morgan Stanley, Research Division - Executive Director*

## PRESENTATION

**Joseph Lawrence Moore** - *Morgan Stanley, Research Division - Executive Director*

Great. Welcome back. I'm Joe Moore. I'm very happy to have with us here today the management team of Texas Instruments. Rafael Lizardi, CFO; and Dave Pahl runs Investor Relations. Just a quick research hedge for important disclosures, please see the Morgan Stanley research disclosure website at [morganstanley.com/researchdisclosures](https://morganstanley.com/researchdisclosures). If you have any questions, please feel free to reach out to your Morgan Stanley sales representative. So with that out of the way, thank you so much.

## QUESTIONS AND ANSWERS

**Joseph Lawrence Moore** - *Morgan Stanley, Research Division - Executive Director*

I wonder if we could spend the first part of this talking about the insights from the Capital Markets Day. Maybe start with you're kind of increasing the long-term growth to 10%. What gives you the confidence about that long-term growth rate?

**Rafael R. Lizardi** - *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

Sure. So at the capital management call about a month ago, we talked about a plan that would enable growth of about 10% for the foreseeable future for the next several years. And we're putting in place a CapEx plan, we have put in place a CapEx plan that will support that. What was -- gives us the confidence on that is the increasing content in semiconductor content analog embedded specifically, going into auto and industrial.

That's number one. Number 2 is our position in those markets that now the company is increasingly more in auto and industrial, but roughly 2/3 of our revenue is in auto and industrial. And then the third one is the input from our customers on the geopolitically dependable capacity that we have put in place, and we continue to put in place both on the fabs as well as on the assembly test operations.

**Joseph Lawrence Moore** - *Morgan Stanley, Research Division - Executive Director*

And I guess -- I mean one of the things I appreciate about TI is, I feel like that's not a 3-year CAGR from here. That's more of a long-term over time. I mean you're not trying to make a cyclical prediction within.

**Rafael R. Lizardi** - *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

Absolutely. We don't, right. The cycles come and go. In fact, we had a very interesting chart on our capital management call. I encourage you to go download that which shows the ups and downs of the cycle, but what is pretty consistent is the long-term growth, and we believe that's going to continue.

**Joseph Lawrence Moore** - *Morgan Stanley, Research Division - Executive Director*

Great. And then to support that higher growth, you're talking about capital spending that moves higher from the prior year's call, \$3.5 billion to \$5 billion a year now. And obviously there's benefits from that you talked to, but maybe you could kind of walk us through some of those benefits and then talk about what drives you to do that at this point?

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**Rafael R. Lizardi** - *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

Yes, sure. So our plan puts our CapEx at about \$5 billion per year for the next 4 years, and that is up from roughly \$3.5 billion last year. But now the difference is we, fortunately, Congress passed the chips act, which we do applaud as a good step to put the United States on an even playing field because many of those type of incentives are offered in many countries around the world.

So roughly speaking, we expect about \$1 billion offset per year. So that \$5 billion, we essentially will get about -- that \$5 billion will be reduced to a net \$4 billion.

But that's -- there's a time offset to that, right? The cash actually comes in about 1 year, 1.5 years later. And the result in depreciation it's about the same then as what we told you last year despite the higher CapEx. But of course, you get that with now much higher revenue enablement.

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**Joseph Lawrence Moore** - *Morgan Stanley, Research Division - Executive Director*

Yes. I'd love to come back to the chips act portion of this. But I think guess what informs the strategy? I mean, you come out of a 2-year period where the shortages have been quite significant, not just TI, but everybody in the industry. And now you'll be able to go out with a message of supply chain certainty. How much does this factor into this? And it seems like that's a message that's going to resonate with customers.

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**Rafael R. Lizardi** - *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

A few angles on that. And Dave, if you want to comment on that, but we put together this CapEx plan with the long-term growth in mind. Clearly, the pandemic and the tightness taught us some things that we're trying to implement as far as our order fulfillment strategy and our inventory strategy, which we talked about at the capital management, and we're going to take inventory higher.

And that's because our business model allows us to given the nature of our parts, catalog in nature, off the shelf, so to speak, long lasting diverse position. So it's pretty low risk. So that combined with our expectations from growth and it allows us to put this plan in place to support that growth over time.

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**Dave Pahl** - *Texas Instruments Incorporated - Head of IR & VP*

Yes. And I would add, as we went through the pandemic and had those shortages. There's a lot of Boards asking their CEOs to look at the resiliency of their supply chain. So really, for the first time at very high levels at our customers, they're looking where products -- who they're buying products from, what their needs will be in 5 years, 10 years, 20 years, and then even down into where those products are sourced.

And as they do that, they find out that in some cases, it might be 50%. In some cases, it may be 70% of their product is sourced either in Taiwan or China. And when that gets reported to the Board with the geopolitical tensions we've had, they've said, okay, what's our plan longer term to reduce that dependency.

So when they look at our footprint and see where our factories are today and then they look at where the additions are going, they really like that. They want to align their road maps and their teams to what we're doing. So if we've had hundred of those, we've had hundreds of those types of discussions with customers.

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**Joseph Lawrence Moore** - *Morgan Stanley, Research Division - Executive Director*

Yes, we've seen that awareness as well, but the biggest OEMs are much more aware of where these things are being built than we've ever seen before. I'm sorry about that.

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**Rafael R. Lizardi** - *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

Well, I just want to clarify something back on the chips Act. The numbers I gave you were for the ITC, the Investment Tax Credit. And that's the part that is essentially nondiscretionary as long as, obviously, you follow what's in the law. And it qualifies that we're not accounting or -- for anything for the grant side of that. And the grant is what you hear about in the news, especially in the last couple of weeks. We're going to aggressively apply for many projects on that front, but we're not counting on that yet. We'll see what we get and then whatever we get then we'll implement it will include it.

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**Joseph Lawrence Moore** - *Morgan Stanley, Research Division - Executive Director*

Maybe following up on that point. So -- because I've gotten some pushback on our modeling of this. So the \$500 million of incremental depreciation fully comprehends the tax credit benefit of the CapEx, but nothing from the grant side, right? So anything grant-wise would be incremental to that. And then can you -- how does that grant process work that's going to be on a project-by-project basis? And what's the time frame of making a determination around that?

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**Rafael R. Lizardi** - *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

Yes. So the guidelines just came out last week, more specific guidelines on that. If I recall correctly for our mature -- so high level is about \$40 billion that the Department of Commerce would be allocating roughly \$10 billion of that is expected to go to mature technology. So where we play essentially. The 45 to -- I think they define it 28 nanometers and above.

But we're mostly in the 45 to 130 nanometers. They have a long list of criteria that -- some of it is kind of mandatory. If you don't do this, you don't -- you're not eligible. Many is more preferential depending on what you commit to do then you'll have a preference to get some of the money or not.

Each project can get up to \$3 billion project-by-project basis. And yes, we'll be -- For our technologies, I believe the window opens in May the applications the pre-application due in the next few weeks. And then sometime in May, we'll get to submit the full application, and then we'll hear sometime after that.

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**Joseph Lawrence Moore** - *Morgan Stanley, Research Division - Executive Director*

Okay. And it seems like a lot of the media focus has been around 2-nanometer advanced technology and things like that. But a lot of the customer focus is really on the nose that you serve. I mean the customers who are most going through the process that you articulated, Dave, that they're going through and looking at their entire supply chain and making sure that it's derived from the right location, that seems to be more of an automotive industrial phenomenon than other markets.

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**Rafael R. Lizardi** - *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

That's correct. And of course, the low nanometer technology that's very important, and they power very advanced chips, but you cannot use those chips without everything that goes around those, which is a lot of what we provide with analog and embedded and particularly in automotive and

industrial. Their many functions and devices that don't use the more advanced technology at all and rely on the kind of embedded and analog technologies to function.

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**Joseph Lawrence Moore** - *Morgan Stanley, Research Division - Executive Director*

Okay. Great. How does the cycle play into this, if at all? I mean, do you look at that \$5 billion as this is the number for the next few years? Is there the potential to make a cyclical adjustment? How do you think about that?

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**Rafael R. Lizardi** - *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

This is the number for the next few years.

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**Joseph Lawrence Moore** - *Morgan Stanley, Research Division - Executive Director*

Okay.

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**Dave Pahl** - *Texas Instruments Incorporated - Head of IR & VP*

And I would add, Rafael pointed to it, but in our capital management slide deck, we showed semiconductor unit shipments over the last 30, you think it was. And you can see cycles, and we marked kind of the peak of each of those cycles. And we listed how many months in between those peaks on the slide.

And then we just took the mathematical average. And the mathematical average is 40 months. So if you call that roughly around 4 years and the variability, as you know, you've been following it as long as we have is quite wide. But if you made a decision today to build a fab the time for the first wafers to come out is that long or perhaps longer, depending on how quick of a head start you have on it. So the investment cycle is longer than what the typical or average cycle you'd see in semiconductor.

So you really need to be planning for that gray line that we show on that chart, the trend line over time because if you try to time that, you'll be either too early or too late if you're trying to queue it on -- trying to pick the next peak.

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**Joseph Lawrence Moore** - *Morgan Stanley, Research Division - Executive Director*

And then I think -- that's helpful. And then as you think about your cost structure coming out of these facilities, subsidized CapEx is good, higher 300-millimeter mix is good. But you're also -- if you're competing with companies that are fabless, there could be all kinds of foundry for pricing dynamics that are moving around over time. It feels like your view is that, that will sort itself out over time. And the best thing you can do is control your own cost structure. Is that right?

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**Rafael R. Lizardi** - *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

Yes. So a couple of things on that. And we could argue at infinitum on this one and what model makes more sense. But we like the (inaudible) control of our own destiny and our customers like that. B, we like that to be in a geopolitically dependable location where we minimize or eliminate any potential disruptions from any issues that may have at the geopolitical level.

And the last one is the foundry model relies on essentially 1 player, maybe 2 or 3 players that are -- have most of the market share on that, and that is just not a good place to be if you're the customer of those fab companies.

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**Joseph Lawrence Moore** - *Morgan Stanley, Research Division - Executive Director*

Okay. Great. And then last question on this, the significant focus on domestic capacity. What about European markets? Isn't that an area where they may have the same preferential treatment for fabs in Europe? And how do you think about those kinds of dynamics?

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**Rafael R. Lizardi** - *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

Right now, we have just a great center of excellence in the United States, in Texas, in particular, but also now in Utah, where we bought a factory about 1.5 years ago. That is a slightly different technology, the 45-, 65-nanometer. And there, we announced a second factory in Utah. So we bought one, and we just announced. And it's embedded in the plan that we talked about on the CapEx front.

But a second factory there, both of those 300-nanometer. And in Dallas -- in the Dallas area in North Texas, we have our Fab1 and our Fab2 in addition to the older factories. And now we're building in Sherman, where we're going to have factories there. We're building the first two concurrently, and we'll equip the first one.

So that's just a great place to have factories. The town, the cities there have been very embracing, have been very supportive. We're getting the incentives. And by the way, Texas is also a great place for electricity and the labor supply and the technology-focused people that we have there is also fantastic.

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**Joseph Lawrence Moore** - *Morgan Stanley, Research Division - Executive Director*

And then I mean the softball question, you'd appreciate these in 5 years, what's the useful life of these facilities?

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**Rafael R. Lizardi** - *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

Much longer than 5. Yes, and it varies depending on the type of tool, but we -- at the fab level, which, of course, they don't -- a fab doesn't keep the same tools throughout its life, but we have fabs that are 50 years old and many of those tools are -- have been there for a while.

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**Joseph Lawrence Moore** - *Morgan Stanley, Research Division - Executive Director*

Yes. Okay. Great. Maybe we could shift to talk a little bit about the near-term environment. Can you just give us an update? You've seen your lead times come down a little bit. You've seen revenue weakness. Maybe a little bit more at TI than other places. Can you just talk generally to that?

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**Dave Pahl** - *Texas Instruments Incorporated - Head of IR & VP*

Yes. And so we haven't updated from our last earnings release, and we'll finish the quarter up and report that out. But I think more broadly, we saw all our markets begin to weaken with the exception of auto that was our expectation for this quarter. I'd say generally, when you look at our products, and we have 80,000 plus products. If you count in SKUs, it might be 4x, 5x that number.

But generally, the lead times have remained stable, 12 weeks or less. We have many peers that are at 52 weeks or longer, and some of them are making progress on it. In addition, we have ti.com, where we've got tens of thousands of products that are available for immediate shipment. And we can deliver in most places the next day, around the world. And in some places.

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**Joseph Lawrence Moore** - *Morgan Stanley, Research Division - Executive Director*

24-hour lead times.

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**Dave Pahl** - *Texas Instruments Incorporated - Head of IR & VP*

Yes. Yes. Yes. That's right. And in some places, we deliver 3 times a day. They order it in the morning and get it in the afternoon. So we're moving to a replenishment model where we'll have inventory of product, the ideal situation that we want to move to is we've got all product that's immediately available through ti.com. Customers can place orders on a backlog at lead time or give us visibility through consignment programs.

But that's the model that we're working to and customers really appreciate that model. And it will be interesting, but that channel of ti.com, I think, will be increasing importance in the future.

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**Joseph Lawrence Moore** - *Morgan Stanley, Research Division - Executive Director*

Great. And I think when you -- one of the things we're learning about this environment is how different companies react to these conditions. It seems like I would summarize TI as being fairly proactive about making sure that your inventories are lean, making sure that you're not holding anyone to backlog and amend the product that they don't -- product that they don't want things like that. Can you just talk to that philosophy a little bit?

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**Rafael R. Lizardi** - *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

Yes. So it starts with our business model because our parts are -- we call them catalog, but think of off the shelf, right? So anybody can just design them in their product. They're not built specifically for any customer or even any application. And they last for a long time, both in inventory, on the shelf as it's waiting to ship but also the product life cycle.

So a customer may design it in and own a thermostat and that same thermostat will sell for many years and even the second version of the thermostat will use the same -- some of the same part. So then -- and when you have 5, 10, 20 customers buying those parts, even if some of those customers stop using them, you'll still have many customers that will use it, so that puts in a position where we can build inventory ahead of time, have it on the shelves that enables better customer satisfaction and shorter lead times.

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**Joseph Lawrence Moore** - *Morgan Stanley, Research Division - Executive Director*

Great. And I think a lot of us that live our lives tactically from quarter-to-quarter, ask a lot of questions about deviations and growth. I feel like over a couple of years, it evens out and you had a very strong relative year in 2021. when you had inventory and other people didn't. Do you think that's the -- I mean, do you care about what the rationale is? Or are you focused more just on your business? And just how do you guys think about market share over the longer haul?

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**Dave Pahl** - *Texas Instruments Incorporated - Head of IR & VP*

Yes. I think as you described in the short period, even a couple of years, there's a lot of things that will put noise into the system, especially as we've gone through the last couple of years with the pandemic and as demand has shifted around. But if you do look at share gains over a longer period of time, and we've been gaining probably 30 or 40 basis points when you look at a 3, a 5, 10 or 15 year.

And our confidence in our ability to continue to gain shares probably never been higher. And our competitive advantages that we've been talking about now for quite some time as we've invested and strengthened them. They were important before, but I think that they're really delivering tangible results. So that doesn't mean, I think, because of the quality of the markets, that's not going to be a huge inflection in market share gains, and we're not counting on that. We'd like it to grow faster. But I think just the quality of the markets, the share just doesn't move very quickly in the near term.

**Joseph Lawrence Moore** - Morgan Stanley, Research Division - Executive Director

Okay. Great. And then in terms of the demand by end market, you've sort of seen the most weakness maybe in the Personal Electronics market. You've talked about the most strength probably in automotive, but you've -- you seem more cautious on automotive than some of your peers inevitably we're going to go through the same correction there. Can you talk to that view? And is it possible that automotive just remains strong through the cycle because there's that much content growth for all the reasons that you've articulated, that's a target market?

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**Dave Pahl** - Texas Instruments Incorporated - Head of IR & VP

Sure. Yes, I'll comment. Rafael, do you want to add anything? I'd just say that it could have remained strong out of the realm of possibilities, it could just from our experience and having done this for multiple decades that when you have shortages, customers build inventory to protect themselves, if they stop building inventory, that's going to lower demand, right? So we saw that happen in first in personal Electronics that has now moved into other markets.

And our expectation would be, at some point, I don't know if that's in a quarter 2 or 3 or 4 quarters of weakness in automotive, but the longer-term trend in automotive remains extremely robust. And our confidence in more content per car increasing in the next decade, the rate of EV adoption, we believe will be faster than the previous decade. So what happens in the short term, we won't have direct control over, but we can focus on that longer-term trend line, and we know it's going to be really solid.

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**Joseph Lawrence Moore** - Morgan Stanley, Research Division - Executive Director

I mean the customer mindset towards inventory in these markets, you guys decided a couple of years ago, we can hold more inventory than we could historically because of the nature of these businesses, long-life products, 0 obsolescence risk, not much value risk over time. Why shouldn't customers make that same decision? Having wrestled with shortages for 2 years, it seems like a reasonable thing for them to be building a lot of safety inventory to make sure this doesn't happen again.

And some of them have articulated that they are -- like how do you guys deal with that? Do you lean into that? Do you presumably if they want to build it, you let them, but how do you stay on top of the trends when that's happening?

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**Rafael R. Lizardi** - Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations

Yes. Correct. I mean, remember, we have 100,000 different customers. And for some of those, we do have information of what they hold in -- on a consignment basis because of our book. But for most of them, we don't. And they buy whatever they want, and if they want to hold inventory, we're not going to stop them. But we -- it is more efficient as an ecosystem for us to have it. But whatever they want to do, they'll do it. And we'll also have our inventory for the reasons I talked.

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**Joseph Lawrence Moore** - Morgan Stanley, Research Division - Executive Director

I mean, ultimately, if they feel comfortable that they can get it and they don't need hold.

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**Rafael R. Lizardi** - Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations

We think over time, they feel comfortable, right? It would be better for everybody if we hold it, but...

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**Joseph Lawrence Moore** - Morgan Stanley, Research Division - Executive Director

Yes. And maybe...



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**Dave Pahl** - *Texas Instruments Incorporated - Head of IR & VP*

And Joe, I'd just add that as customers look to improve the resiliency of their supply chain. One option is to carry more inventory, but that's pretty tactical in near term. As we talked about earlier, the CEOs of the companies are looking at the supply chain. And if you think of it, industrial customer or an automotive customer, an OEM, they're not most -- they're not making the decisions on our products.

It's the Tier 1, the Tier 2, the Tier 3s the frontline engineers are making those decisions. And for the most part, they haven't been involved when you're the OEM. And they study that supply chain, and we have, in most cars, 300 or 400 different SKUs. And we've got EVs that we've got over 1,000 different SKUs that we'll sell into. And they're shocked.

They didn't know that we had that many parts in their automobiles. So when they look at that resiliency, it's more than just carrying inventory. It's where is it going to be sourced? Where are the technologies that they're going to need for the next 5 and 10 years and ensure that they've got some influence in who's picking those parts and what decision matrix they're using to make them in. And that's different today than it was 5 years ago.

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**Rafael R. Lizardi** - *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

And that's a fantastic point because a customer may decide, okay, I'll hold a year's worth of inventory, which would be pretty honored us to begin with, they do that across their supply base. But at the end of the day, there's a significant disruption, a year may not be enough, right? If they don't have it -- their suppliers don't have a good business continuity plan. They don't have good alternate sources. They're not in geopolitically dependable location. So that is where our broader strategy comes in besides you more inventory rate.

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**Joseph Lawrence Moore** - *Morgan Stanley, Research Division - Executive Director*

Well, we saw that to some degree with your strategy in the sense of I thought building that inventory would mean that you would have enough for any environment. And then suddenly we're in an environment where you still don't have enough. And the CapEx probably leads to more conviction that you won't run into that situation.

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**Rafael R. Lizardi** - *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

Correct. Same thing, right, holding more inventory only gets you so far right? And the CapEx having capacity ahead of demand takes you the rest of the way.

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**Joseph Lawrence Moore** - *Morgan Stanley, Research Division - Executive Director*

Great. So I'll ask one more question and then we'll open it up to the audience in case there's some. Can you talk about your approach to distribution. Dave, you mentioned ti.com, but you guys have kind of along the similar vein of rethinking your business model, rethinking about let's optimize things. You guys have sort of moved in some cases, away from distribution more towards a direct relationship with all sizes of customers. Can you talk about that thought process and how that's going?

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**Dave Pahl** - *Texas Instruments Incorporated - Head of IR & VP*

Yes, I'll start off. We put together a team in 2019, and you know that we've been investing in ti.com for well over a decade now in demand creation. But in 2019, we've put a team in place to look at bringing more customers direct. I think in 2020, we had -- 2019, if we go back to that, we had 3 of our revenue going through distribution, 1/3 of it direct as we executed that program to bring more customers directly.

Last year, we now had 70% of our revenues direct. And our Head of Sales has described a number of customers that want to go direct as down the street and around the corner lined up. And it's really just our IT's team ability to bring those customers in so we can do exchange of invoicing and orders and those types of things direct. So we're going to put some systems in place that makes that process easier, that will be more self-served by customers and their ability to come direct.

And operations teams that our customers have lots of concerns, but the number -- top few concerns is what's pricing and what's availability. And we've already talked about a little bit of we've long believed that owning and controlling our inventory in the channel and add customers is a strategic value.

So we've got the best availability, and we just have structurally the lowest cost. And so those 2 things, I think, are -- especially as we've gone through shortages, having that diversification and visibility of where product is and the shortages are where we need to focus to close those. They're just going to get better information if they're dealing directly with us.

So that's right where we are. And just strategically being engaged with customers, this gives us better insight, better knowledge of the programs that are operating, and we don't have a third party between us and those customers. We just think long term, that's going to lead to share gains.

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**Joseph Lawrence Moore** - *Morgan Stanley, Research Division - Executive Director*

And your competitors are doing what I would do in their situation, which is saying the distribution will now be helping us. How do you make sure -- I feel like a lot of the initial demand creation happens 2 or 3 years before any business people actually get involved in these types of parts. How do you make sure that you're still getting your parts in front of the designers at the time that they need to do their designs?

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**Dave Pahl** - *Texas Instruments Incorporated - Head of IR & VP*

Yes, it's really investments we've made over the years in ti.com, and we get close to \$100 million sessions with our customers' engineer a year. Those sessions range in 3 to 4 minutes in time. So this is engineers coming when they're doing designs, going through the process of picking parts. And we can use that information to make that engineer's time productive so that we know within a click or 2 what system they're developing.

Our portfolio goes from tens of thousands of products down to the couple of dozen. We know that engineers are going to be interested in. And the goal is to make their time as productive as possible, but also to get as many parts in front of them and the right reference designs and information. So we've been doing that for a well over a decade now. We've got a lot of experience doing it. And that's how we ensure that we're in front of those customers.

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**Joseph Lawrence Moore** - *Morgan Stanley, Research Division - Executive Director*

Let's see if there's a question from the audience. Over here.

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**Unidentified Analyst**

You guys already know this market today with 2 bond deals 10 year and 30 years. I was wondering if there's been any changes in your thinking about capital structure or leverage targets, given the high rate environment we're in right now?

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**Rafael R. Lizardi** - *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

Yes. No. When it comes to debt, we -- our objectives have not changed, and that is -- debt is a useful tool to complement our operating cash and the economics make sense. And there's 2 angles to the 2 sides of the economic. Obviously, the cost is one and interest rates have obviously gone up. But it's still -- in the big scheme of things, it's still a relatively good deal.

And the other side of that is well, we're going to use that cash flow, right? And we have ample cash on the balance sheet. We finished last quarter at \$9 point-some billion, \$9.7 billion, I believe, which is the ample cash for our business, but we want to keep that way. And that is because in the next 3 or 4 years, we have CapEx coming as we talked about. And we're also going through a cycle and potentially a recession.

So part of controlling our own destiny is to have ample cash so that we can continue to protect it. And that starts with our operating cash which is very strong. Then the cash on our balance sheet, which, again, very strong. But then we supplement that also with that as that makes sense.

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**Unidentified Analyst**

I have 2 quick questions. The first one is, most of your Asian competitors would tell us that thank goodness TI cares about margins, otherwise, they wouldn't survive. So as you guys fill out more capacity, what do you think about using pricing more strategically perhaps to curb the competition from Asia?

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**Rafael R. Lizardi** - *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

Yes. I'll give you my take, and Dave, you want to chime in, but a couple of angles to that. One, the type of parts that we run, even though they're off the shelf, as I said earlier, in catalog and they have potential replacements, but for the most part, they're not dropping replacements, right? You need something else to change on the board, but kept -- slightly different capacity or resistor, slightly different board.

If you push it, you can make the change, but it's from a customer standpoint, it's investment in R&D, it takes time, you got to respin the board, you got to qualify. So it's not -- it's not as easy, I drop prices and a sudden going to get all this demand because customers -- and remember, our average selling price is in the -- it's less than \$1 -- \$0.50, less than that.

So customers are not going to change a bunch of stuff just so that you move -- so that they can save a few pennies. That's one angle to the question. But the other angle though, is there are some areas of the market, Personal Electronics, for example, where pricing makes a difference in the initial process of designing the part.

So if you're selling a thermostat or a phone -- well, let me stick with Personal Electronics, a low-end phone, a few pennies here and there, a few pennies there make a difference. So our cost position is great for that because we have a 300 millimeter, we have on the [ATE] front, we're very efficient. So we can design parts that are bare bones, let's call it, just for those types of end markets, so we can compete on that. We do compete on that. So we'll make sure we maybe give them a little more for their money on that front.

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**Joseph Lawrence Moore** - *Morgan Stanley, Research Division - Executive Director*

Great. Well, Dave and Rafael unfortunately, we're out of time. Thank you so much.

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**Dave Pahl** - *Texas Instruments Incorporated - Head of IR & VP*

Okay. Thank you.

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